ANNUAL REPORT 1967

THE BRITISH AMERICAN OIL COMPANY LIMITED
and Its Affiliated Companies

The British American Oil Company Limited

Contents

Front Cover

Sunset at British American's Edmonton, Alberta, refinery.

Annual Meeting

The Annual Meeting of Shareholders will be held in the Empress Room of the Park Plaza Hotel, Toronto, at 2:00 p.m., April 18, 1968.

Highlights of Operations

	1967	1966
Financial		
Earnings for the year	$ 44,035,000	$ 42,509,000
Per share	$ 2.01	$ 1.95
Total dividends to shareholders	$ 24,086,000	$ 23,466,000
Rate per share at year-end	$ 1.10	$ 1.10
Shareholders' equity at year-end	$646,830,000	$624,529,000
Per share	$ 29.50	$ 28.58
Capital expenditures	$ 72,404,000	$ 68,082,000
Working capital	$171,731,000	$198,369,000
Long term debt	$ 69,197,000	$ 70,877,000
Operating (Canada)		
	Millions of cubic feet	
Net natural gas produced and sold	103,322	98,456
	Thousands of barrels	
Net crude oil and natural gas liquids produced	27,042	24,648
Crude oil processed	69,850	66,530
Refined products sold	76,193	67,940
	Thousands of pounds	
Petrochemical sales	355,667	370,413

Directors

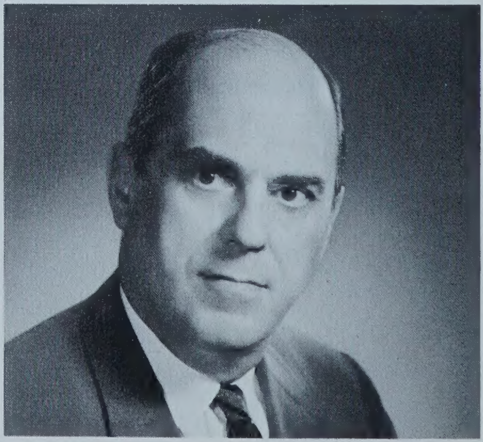
W. Herman Browne, Chairman, Moore Corporation Limited, Toronto, Ontario. Director: The Bank of Nova Scotia; The Steel Company of Canada, Limited. (1965)

F. W. Bruce, President, Aluminum Company of Canada, Limited, Montreal, Quebec. Director: Polymer Corporation, Limited; National Trust Company Limited. (1962)

R. A. Laidlaw, Director and Honorary Chairman, National Trust Company Limited, Toronto, Ontario. Director: Maple Leaf Gardens Ltd; The Steel Company of Canada, Limited; Canadian Corporate Management Company Limited. (1951)

Jerry McAfee, Executive Vice-President, The British American Oil Company Limited, Toronto, Ontario. Formerly Senior Vice-President of Gulf Oil Corporation and of Gulf Eastern Company, London, England. (1967)

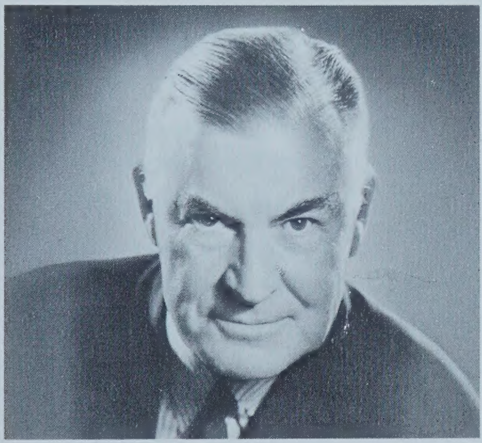
V. W. T. Scully, Chairman and Chief Executive Officer, The Steel Company of Canada, Limited, Hamilton, Ontario. Director: Bank of Montreal; Moore Corporation Limited; Sun Life Assurance Co. of Canada. (1964)



C. D. Shepard, Chairman of the Board, The British American Oil Company Limited, Toronto, Ontario. Director: The Toronto-Dominion Bank; The Carborundum Company. (1960)

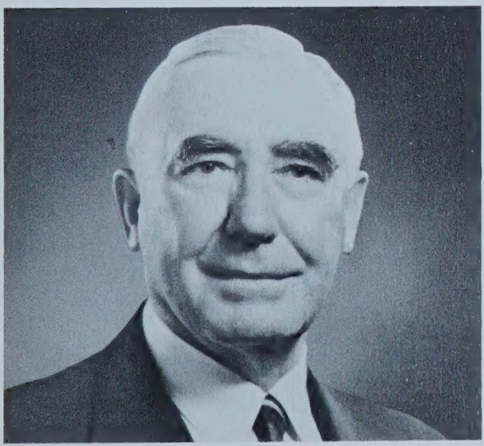
J. R. Gordon, Chairman of the Executive Committee and Director of The International Nickel Company of Canada, Limited, New York, N.Y. Director: The Borden Company; The Babcock & Wilcox Company; The Canada Life Assurance Company; The Steel Company of Canada, Limited; The Toronto-Dominion Bank. Trustee: The Bank of New York. (1961)

Charles Hay, President and Chief Executive Officer, The British American Oil Company Limited, Toronto, Ontario. Director: Bank of Nova Scotia; National Industrial Conference Board; Canadian Nuclear Association. (1964)

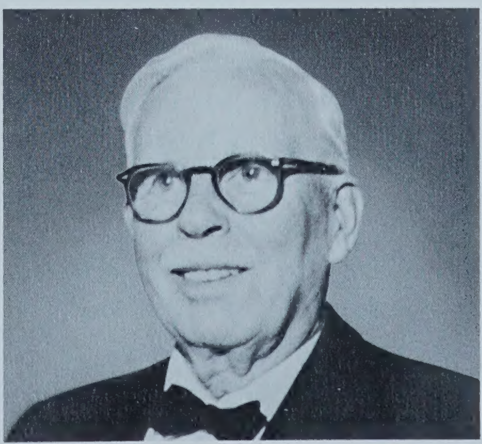


Beverley Matthews, Q.C., Senior Partner of McCarthy & McCarthy, Toronto, Ontario. Director: The Toronto-Dominion Bank; Trans-Canada Pipe Lines Ltd.; Brazilian Light & Power Co. Limited; Canadian Westinghouse Company, Limited; Canada Permanent Trust Company; Gulf Oil Corporation. (1955)

Gérard Plourde, President, UAP Inc., Montreal, Quebec. Director: Anglo-French Drug Co. Ltd.; Charter Credit Corporation; Editions du Renouveau Pédagogique Inc.; Northern Electric Company Limited; Omer De Serres Limitée; Robert Morse Corporation Limited; Rolland Paper Company Limited; Sidbec Inc.; Steinberg's Limited; The Toronto-Dominion Bank. (1965)



L. J. Belnap, Montreal, Quebec, Director Emeritus



C. L. Suhr, Oil City, Pennsylvania, Director Emeritus

Report to Shareholders

British American's consolidated net earnings for 1967 amounted to $44 million, or $2.01 per share, compared with $42.5 million, or $1.95 per share in 1966.

The improvement of 3.5 per cent resulted from higher earnings from Canadian producing, refining and marketing operations, and increased income from short term investments. Offsetting factors were the loss of earnings from B-A's former U.S. producing subsidiary, and a decline in petrochemical earnings. The financial and operating results for the year are commented upon in more detail later in this report.

British American and its affiliates made excellent progress in 1967. Especially encouraging were the results of B-A's exploration and drilling programs in the Zama-North Zama area of northwestern Alberta where the success ratios were exceptionally high; an active exploration program is continuing in this area. Public acceptance of the new blue-and-orange colors and conversion of marketing facilities to the new corporate image has already proven beneficial in drawing a larger share of U.S. motorists into B-A service stations.

The Canadian petroleum industry had another good year in 1967 and was not seriously affected by the levelling off in the national economy. High levels of demand for crude oil, natural gas and petroleum products all contributed to industry growth. The year had its disappointing aspects, too. A moderate recession in the chemical industry, which caused price erosion in both Canada and world markets, was a major factor in the overall profit decline in the chemical and petrochemical industries.

Canadian production of crude oil and natural gas liquids in 1967 averaged in excess of 1.1 million barrels per day, a gain of ten per cent over 1966. A major factor in this increase was sales to United States markets as a result of the Middle East crisis, which disrupted normal supply patterns of international oil trade. The accessibility of Canadian reserves as a dependable source of crude supply during periods of international crisis was evident during this period, and strengthened Canada's position in the North American energy supply markets. The U.S. government's decision to approve the proposed looping of the Interprovincial pipe line system via the Lower Great Lakes region will make available an increased supply of Canadian crude oil to U.S. customers and to Ontario refiners. With adequate and flexible supply systems supported by substantial reserves, the outlook for the Canadian producing industry is viewed with optimism for the long range.

The demand for natural gas in Canada, which increased 12 per cent

in 1967, should continue to grow at a favorable rate both in domestic and export markets. Approval by the U.S. Federal Power Commission of Trans-Canada Pipe Lines' application to transport gas to Eastern Canada via the northern states has added impetus to the growth of natural gas sales.

Increased demand for natural gas has resulted in Canada becoming the world's second largest producer of elemental sulphur. The high level of sulphur sales in Canada and abroad was accompanied by a further strengthening of prices.

Petroleum product demand, supported by increased tourist traffic associated with Expo '67 and Canada's Centennial celebrations, increased six per cent. Prices were firm in most market areas, and there is now considerable optimism that this area of industry activity will improve its contribution to earnings and realize a more adequate return on capital employed in manufacturing and marketing.

Several executive appointments have been announced since the last Annual Report to fill newly-created posts. Jerry McAfee, formerly a Senior Vice-President of Gulf Oil, became Executive Vice-President and a Director of B-A. L. P. Blaser, World-Wide Co-ordinator of Refining for Gulf and a former B-A Vice-President, was named Senior Vice-President. S. G. B. Pearson, formerly General Manager—Production for British American, was appointed Vice-President—Mineral Development.
D. L. Campbell resigned as a Vice-President and a Director of British American Oil.

B-A's progress in 1967 is a direct reflection of the substantial contributions made by employees, dealers and agents, and the support given by shareholders and customers. Their continued efforts will ensure British American of success in the future.

On behalf of the Board,

Chairman of the Board. President.

Toronto, Ontario, March 22, 1968.

Financial Review

Earnings for the year amounted to $44 million, or $2.01 per share, compared with $42.5 million, or $1.95 per share in 1966. The 1967 figure represents another new high in consolidated earnings, notwithstanding that it was the first full year without any contribution to earnings from operations in the United States.

As British American's U.S. producing company was sold in the latter part of July, 1966, earnings of that year included U.S. operating results for seven months, compared with no earnings from this source in 1967. Offsetting, in part, the loss of U.S. operating earnings, the interim employment of the net proceeds from this sale produced short term investment income in the latter part of 1966, and in diminishing amounts throughout 1967.

In this connection, the short term investment portfolio had reduced to about $48 million by the end of 1967, compared with nearly $70 million at the start of the year. It is anticipated that all net proceeds from the sale of its U.S. interests will have become permanently employed in British American's Canadian operations by the end of 1968.

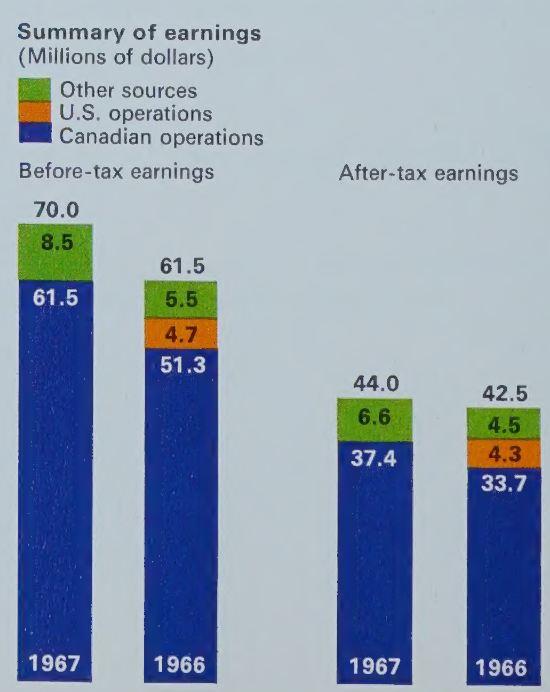
The comparative statements of earnings on page 26 provide details of revenues and expenses. Net sales and operating revenues at $596.8 million were 5.9 per cent higher due to increased sales volumes and price recovery for refined products in some areas. This revenue figure does not include $121.9 million in gasoline and fuel taxes collected on behalf of provincial governments. Investment and sundry non-operating income amounted to $12.3 million, an increase of $1.4 million. Included in this income is interest received on short term investment of the net proceeds from the sale of the U.S. company.

Higher operating expenses in 1967 reflected not only the increased volumes achieved, but also the rising costs of materials and labor. The Company continued to emphasize cost controls and operating efficiencies in order to minimize the effect of these inflationary trends. Taxes on 1967 income totalled $26 million, up $7 million or 37 per cent, reflecting the higher earnings from Canadian operations.

The reduction of $3.5 million in the charge for depreciation, depletion and amortization follows the disposal of the U.S. producing company which in 1966 charged $5.7 million. Reduction in other interest expense resulted from repayment of certain short term indebtedness out of proceeds of the sale. The change in the minority interest share of earnings from a profit of $1,294,000 in 1966 to a loss of $80,000 in 1967 was due to the operations of Shawinigan Chemicals Limited (two-thirds owned). Because of reduced demand and lower prices experienced by the chemical industry during 1967, and operating problems encountered at its new processing facilities at Varennes, Shawinigan reported a loss for 1967 compared with a profit in 1966.

The graph headed "Summary of Earnings" shows a comparison of earnings before and after income taxes analyzed between earnings realized from Canadian and U.S. operations and earnings from other sources. Before-tax earnings indicate that 1967 operating earnings in Canada amounted to $61.5 million, up $10.2 million from last year. This represents a gain of $5.5 million over the combined pre-tax operating earnings from Canada and the United States in 1966. Earnings from other sources increased from $5.5 million to $8.5 million in 1967.

The after-tax comparison shows earnings from operations in Canada were up $3.7 million, and earnings from other sources increased by $2.1 million. This total gain of $5.8 million more than



offset the contribution to 1966 consolidated earnings of $4.3 million generated by B-A's former U.S. producing company up to the date of its sale in mid-1966. As a result, there was a net gain of $1.5 million in consolidated earnings, from $42.5 million to $44 million in 1967. The gain in Canadian operating earnings was achieved despite the previously-noted decline in the 1967 earnings of British American's petrochemical affiliate, Shawinigan Chemicals Limited.

The graph headed "Source and Use of Funds" indicates the effect of the sale of British American's U.S. interests, which provided funds of $115.7 million, and was the major factor in the 1966 increase in working capital. In 1967, however, use exceeded funds generated and, as a result, working capital declined $26.7 million. Table I provides an analysis of this working capital change.

Table II provides a comparative analysis of capital expenditures by operating function and between Canadian and U.S. operations.

During the year the Company paid $13.1 million in connection with a contingent U.S. tax liability as explained in more detail in note 6 (c) to the financial statements. The entire amount has been treated as a claim for refund in the 1967 year-end balance sheet. Management is optimistic as to the outcome of this suit and, in its opinion, any amount of the claim disallowed would not affect the annual earnings to be reported for 1968 or a subsequent year.

The shareholders' equity in the net assets of the Company increased $22.3 million to $646.8 million, or $29.50 per share, at the year-end. A statement of operating statistics for the past five years and a financial summary for the past ten years are shown on pages 33 and 34.

Source and use of funds
(Millions of dollars)

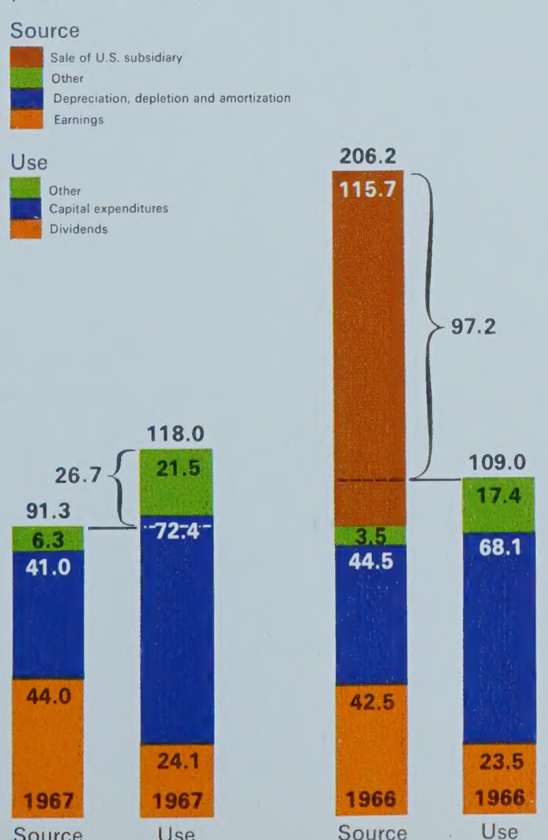


Table I
Working capital

Millions	December 31 1967	1966	Change
Cash and marketable securities	$ 66.7	$ 84.2	$(17.5)
Accounts receivable	119.8	119.7	.1
Inventories	106.8	96.1	10.7
Prepaid expenses	5.5	5.4	.1
Total current assets	298.8	305.4	(6.6)
Less current liabilities	127.1	107.0	20.1
Working capital	$171.7	$198.4	$(26.7)

Table II
Expenditures on properties, plants and equipment

	1967		1966	
	Millions	Per Cent	Millions	Per Cent
Production	$19.5	26.9	$20.8	30.6
Transportation	3.2	4.4	.7	1.0
Refining	8.7	12.0	5.1	7.5
Petrochemicals	11.6	16.0	14.1	20.7
Marketing	26.3	36.4	24.6	36.1
Other	3.1	4.3	2.8	4.1
Total	$72.4	100.0	$68.1	100.0
Analysis:				
Canadian operations	$72.4	100.0	$65.8	96.6
United States operations			2.3	3.4
Total	$72.4	100.0	$68.1	100.0

Exploration and Production

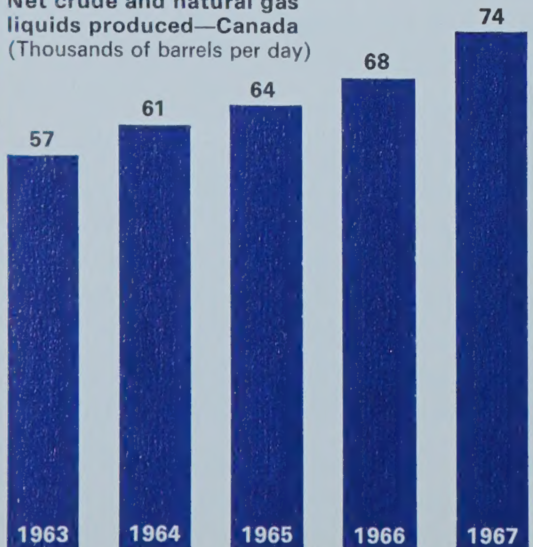
In 1967 B-A and its affiliates recorded a gain of approximately ten per cent over the previous year in Canadian net production of crude oil and natural gas liquids—from 67,500 to 74,000 barrels per day.

Net Canadian natural gas produced and sold also showed a substantial increase from 270 million cubic feet daily in 1966 to 283 million cubic feet daily in 1967.

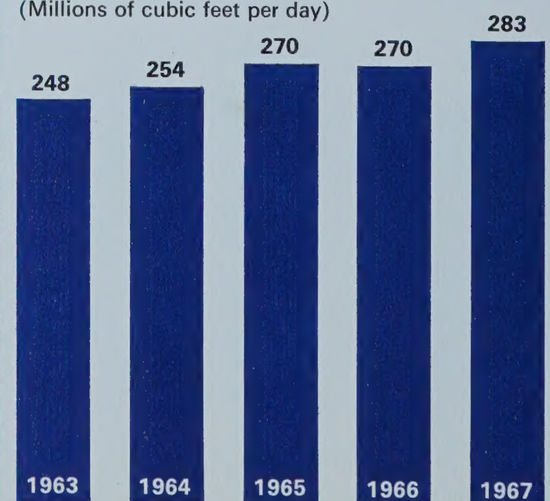
B-A's exploration activities met with better-than-average success during the year, particularly in the Zama area of northwestern Alberta where, out of seven wildcat wells, six were successful in finding oil or gas. Exploratory drilling by B-A and its partners resulted in the completion of 32 gross wells during the year, compared with 53 wells in 1966. The 1967 completions resulted in four oil and four gas discoveries.

In development drilling, B-A participated in 62 gross wells, compared with 79 last year. Principal areas of activity were Zama and southeastern Saskatchewan for oil, and central Alberta, Kaybob and northeastern British Columbia for natural gas.

Net crude and natural gas liquids produced—Canada
(Thousands of barrels per day)



Net natural gas produced and sold—Canada
(Millions of cubic feet per day)



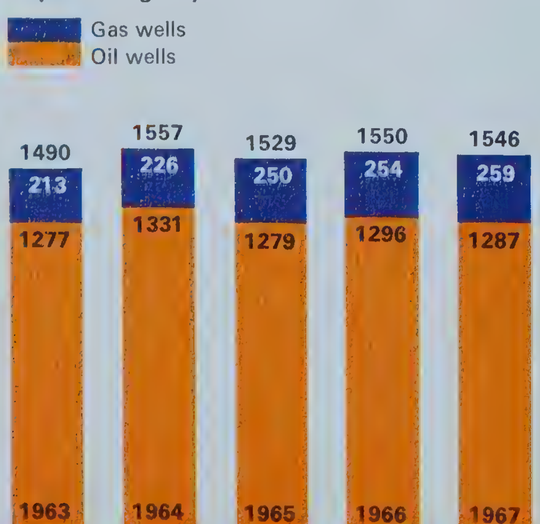
Top left: An active exploration program was carried out by B-A during 1967. Left: Drilling rig in Lookout Butte area of Alberta. Above: Drilling crews in the Zama area of northwestern Alberta successfully brought in six of seven B-A wildcat wells. "Tight hole" indicates all information on this Zama well was confidential when photo taken.

At the year-end B-A held a total of 23.8 million net acres under lease, reservation or permit, an increase of approximately five million acres over the 1966 figure. Of the total land holdings, net leasable acres amounted to approximately 14 million.

Recoverable reserves at the year-end, before royalty, are estimated at 614 million barrels of crude oil and natural gas liquids, 3.2 trillion cubic feet of marketable gas and 4.3 million long tons of sulphur. On a net basis, after royalty, these reserves are estimated to be 530 million barrels of oil and natural gas liquids, 2.8 trillion cubic feet of marketable gas and 3.9 million long tons of sulphur. The decrease in natural gas and sulphur reserves occurred principally in the Pincher Creek field which has been producing for over ten years.

Processing of natural gas from the Ghost Pine, Munson and Rowley fields through the new Morrin-Ghost Pine, Alberta, gas plant commenced in mid-November; B-A, owning the largest gas reserves in these fields, operates the plant on behalf of 36 other companies. Also in November, the Company's plant at Pincher Creek began processing natural gas from the Lookout Butte field.

Net oil and gas wells capable of producing at year-end—Canada



Well completion data—Canada

	1967	1966	1965	1964	1963
Exploratory					
Gross wells	1967	1966	1965	1964	1963
Successful—oil	4	3	6	5	8
—gas	4	7	15	12	11
Dry holes	24	43	59	52	49
Total	32	53	80	69	68
Net wells					
Successful—oil	4	2	4	4	6
—gas	4	6	14	7	7
Dry holes	16	32	47	42	35
Total	24	40	65	53	48
Development					
Gross wells	1967	1966	1965	1964	1963
Successful—oil	26	48	43	98	122
—gas	29	19	36	24	13
Dry holes	7	12	25	24	32
Total	62	79	104	146	167
Net wells					
Successful—oil	16	26	25	61	73
—gas	6	3	18	9	2
Dry holes	5	9	22	19	19
Total	27	38	65	89	94

Top left: New Morrin-Ghost Pine, Alberta, plant commenced processing natural gas in November, 1967. Top: Aerial view of B-A's gas processing plant at Pincher Creek, Alberta. Left: Part of major shipment to Japan, propane is delivered by refrigerated rail car to new Burnaby, British Columbia, terminal for storage before reloading on ship.

Supply and Transportation

A record volume of crude oil and products was transported during 1967. The full impact of the 1966 rail freight increase was partially offset by the use of more efficient methods, including jumbo tank cars.

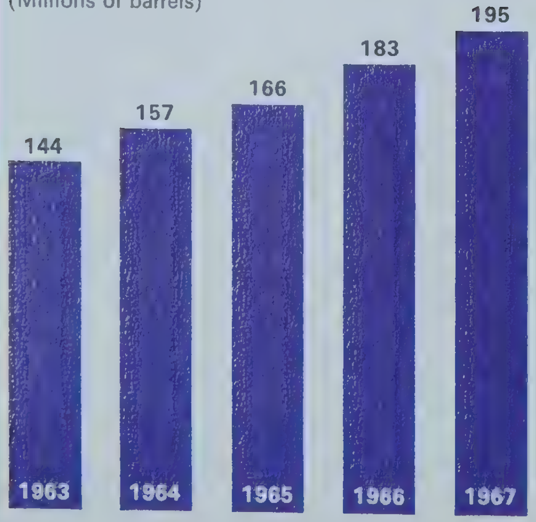
Purchases of some foreign crude oils were re-arranged to minimize supply problems caused by the Middle East crisis. However, the longer ocean haul via the Cape of Good Hope added to crude oil costs.

During the year 36 million barrels of crude oil and natural gas liquids were transported through Company-operated pipe lines, an increase of one million barrels over 1966.

The Company's distribution system across Canada was strengthened by arrangements which ensured the continuity of supply and most economic utilization of refining capacity.

Construction of a nine-line pipe line system crossing the St. Lawrence River to join B-A's Montreal East refinery and the Varennes, Quebec, plant of Shawinigan Chemicals, is progressing satisfactorily. The lines, when in operation, will exchange feedstocks and products between the two plants.

Crude oil and refined products transported—Canada
(Millions of barrels)



Top left: Over 2,000 Company vehicles were painted in new corporate colors during 1967. Bottom left: Railway tank cars pass in front of B-A's Rimbey, Alberta, gas plant. Top: Pipe line to connect B-A's Montreal East, Quebec, refinery and Shawinigan Chemicals plant at Varennes, Quebec, crosses St. Lawrence River. Lower left: Specially-designed cylinder trailers transport helium from Canadian Helium Limited plant near Swift Current, Saskatchewan, to Eastern Canada; B-A has a one-third interest in company, which tripled capacity last year. Left: An insulated pipe line, connecting the Lookout Butte, Alberta, field with B-A's Pincher Creek plant, was completed in 1967.

Manufacturing

With all refineries operating at or close to capacity, crude oil and condensate processed totalled nearly 70 million barrels, up 3.3 million barrels over 1966.

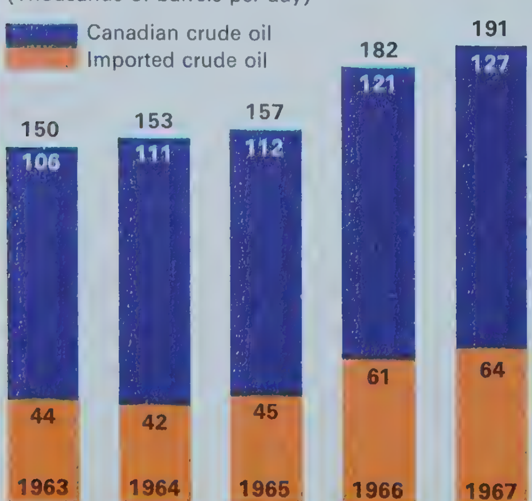
Plans were announced for an expansion of capacity at the Port Moody, British Columbia, refinery. Processing facilities will be increased from 18,000 to 28,300 barrels per day at a cost of $10 million. The major construction phase will be completed by the Fall of 1969, and the full expansion will be finished by 1972.

Discussions with governmental bodies and engineering planning continued on the proposed refinery at Point Tupper, Nova Scotia.

Scheduled for completion early in 1968 at the Clarkson, Ontario, refinery, are facilities to upgrade the octane characteristics of the gasoline production, and also equipment to produce an improved range of high quality solvents.

Refinery crude processing capacity	Barrels Per Calendar Day
Montreal East, Quebec	67,500
Clarkson, Ontario	55,400
Brandon, Manitoba	3,600
Moose Jaw, Saskatchewan	13,500
Saskatoon, Saskatchewan	7,500
Calgary, Alberta	9,000
Edmonton, Alberta	12,600
Kamloops, British Columbia	5,900
Port Moody, British Columbia	18,000
Total	193,000

Crude oil processed by B-A and for B-A's account
(Thousands of barrels per day)



B-A's nine refineries, including those at Montreal East, Quebec (top left), Clarkson, Ontario (lower left), Edmonton, Alberta (top), and Port Moody, British Columbia (right), shared in processing record 70 million barrels.

Marketing

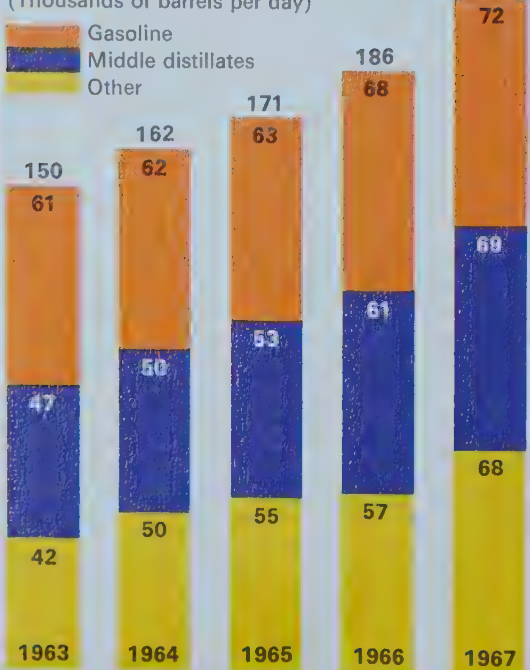
Sales of refined petroleum products showed a 12 per cent gain over 1966.

After several years of generally declining prices, the trend toward price improvement at the retail gasoline level, which began in 1966, continued in most areas during 1967.

The program to convert marketing facilities to B-A's new corporate image was extended to all areas of Canada during 1967. The new colors, the same as those of Gulf Oil, have strengthened the identification of B-A as part of this world-wide family of companies. A substantial increase in the volume of business from tourists using Gulf credit cards at B-A stations was experienced during 1967 as a result of this change.

The current trend in retail marketing to larger and more attractive outlets offering a wider range of products and services has resulted in the closing of some smaller, marginal locations. During the year B-A opened a number of new or rebuilt service stations in which both appearance and functional efficiency were upgraded.

Refined products sold
(Thousands of barrels per day)



Service stations, dealer uniforms and product packaging were converted to new corporate design and color scheme. Left: Night photo of Wayfare restaurant on Highway 400, near Barrie, Ontario, one of chain being built on heavily-travelled arteries. Above: New headquarters of B-A's Atlantic Division in Halifax, Nova Scotia, were opened in 1967.

Several highway service centres with attractive Wayfare restaurants were also opened during 1967. These outlets are designed to provide the motorist with reliable car care services as well as good quality restaurant facilities. The B-A Travel Card can now be used at Wayfare restaurants, Holiday Inns, and Tilden car-leasing outlets.

B-A's largest automotive diagnostic and repair centre, construction of which was commenced in Toronto during 1967, will be in operation by the summer of 1968. When completed, the centre will afford the most modern facility in Canada for the analysis and repair of automobiles, incorporating advanced quality control equipment to ensure a high standard of repair work. A fully automatic car wash will also be part of this complex.

B-A Harbormaster was opened at Vancouver, British Columbia, to serve growing volume of marine traffic.

Employee and Public Relations

Two-year contracts for six refineries and one Marketing division were signed in June. Bargaining with all other units was also completed during 1967, with most contracts running one year.

The Company continued to broaden its manpower development program by providing opportunities for employees to gain knowledge and skills to achieve maximum personal development. During the year a new university recruiting program was brought into full operation with excellent results.

The second series of annual awards dinners honored 180 employees who had achieved 25 or more years of service with the Company.

In the field of safety, ten units received the President's Award for operating 365 days without a lost-time injury. Recognition was also given to 495 employees for safe-driving records.

Public relations activities during the year included informational programs directed to employees, dealers, shareholders and community groups. Booklets and films on the oil industry and Canada provided educational background for interested students and teachers.

During 1967 B-A scholarships or fellowships were awarded to 31 students. In addition, twelve bursaries were added to the plan for students entering university. Other aid-to-education programs included scholarships and awards to agricultural and technological institutes and departmental grants-in-aid. The Company's corporate donations continued to assist university and hospital capital campaigns and local united fund appeals.

At Expo '67, B-A's sponsorship of Notre Dame Park and co-sponsorship of the Pavilion of Economic Progress met with excellent public acceptance. "Go Find A Country," a travel movie marking the Centennial Year, was shown on national television and enjoyed by many other audiences across Canada.

Top: B-A-sponsored Information Centre and Notre Dame Park proved popular with Expo'67 visitors. Bottom: Jumbo trailer displays new corporate colors against familiar Expo background.

Research and Development

The B-A Research and Development Centre at Sheridan Park, Ontario, continued to expand its programs to assist the British American companies in achieving corporate objectives.

Techniques were developed to help optimize refining operations, while progress was also made in catalyst evaluation, metallurgical studies, and in air and water conservation technology. Work continued in physical chemistry and asphalt research.

Major units installed during the year were micro-reactor and hydrogeneration pilot plants, which will assist in improving processes to maximize the profitability of the B-A product line. Products introduced included Durafleet motor oil, Duratran transmission fluid, Duralube EPO grease, fish machine oil, and concrete form grease. Lubricants for use in drilling operations in −50°F. temperatures were also developed. Special emphasis continued to be given to the development of specialty products, petrochemicals and chemicals.

B-A's research programs continued to attract many young, highly qualified scientists from Canada and overseas countries.

Royalite Oil Company, Limited

The earnings of Royalite Oil Company, Limited, (97.6 per cent owned), amounted to $4.2 million, or $1.42 per common share in 1967, compared with $3.1 million, or $1.03 per common share, after allowing for dividends on the preferred shares in 1966. The marked improvement in earnings per share in 1967 reflected the redemption of the preferred shares in 1966, and favorable factors which are unlikely to recur on a continuing basis.

Revenue from crude oil and natural gas operations rose substantially. Improved marketing earnings were recorded despite an unusually light agricultural demand for petroleum products.

On February 26, 1968, the shareholders of Royalite approved an amalgamation of that company with a wholly-owned B-A subsidiary, as explained in more detail in note 1 (b) on page 28. Completion of the amalgamation is subject to the issue of letters patent of amalgamation.

Above: Newly-designed service station in busy Winnipeg, Manitoba, shopping centre. Right: Carbon dioxide generators fuelled by propane are used to improve growth of flowers in greenhouses.

Superior Propane Limited

Superior Propane in 1967 enjoyed a record year in sales and earnings.

By extending its marketing area into New Brunswick through the acquisition of the assets of Corno Gas, Superior now sells on a national basis from British Columbia to Newfoundland. The company effected significant operating economies with the completion of refrigerated storage facilities at B-A's Montreal East refinery and with improved distribution patterns, particularly in the Maritimes.

Two interesting uses for propane were developed during 1967—in carbon dioxide generators to accelerate growth and increase the size of greenhouse flowers and in diamond drilling to ensure continuous operation in sub-zero temperatures. It is expected that the demand for propane will continue to grow in Canada in 1968.

Shawinigan Chemicals Limited

Shawinigan Chemicals Limited was affected by the general levelling off in demand and prices which developed in 1967 in the chemical industry.

Total sales were three per cent below 1966. This decrease, along with start-up expenses of new facilities, wage increases, and some price erosion, contributed to an overall profit decline.

Offsetting the foregoing in part, an excellent year was experienced in export sales, although prices in world markets suffered due to overcapacity.

The Canadian market for polyvinyl chloride resins slowed down from its previous rapid rate of growth, mainly because of strikes at major end-use industries such as flooring, wire and cable, and also a decline in construction. It is anticipated that new resin development will enable Shawinigan to improve its share of the polyvinyl chloride market.

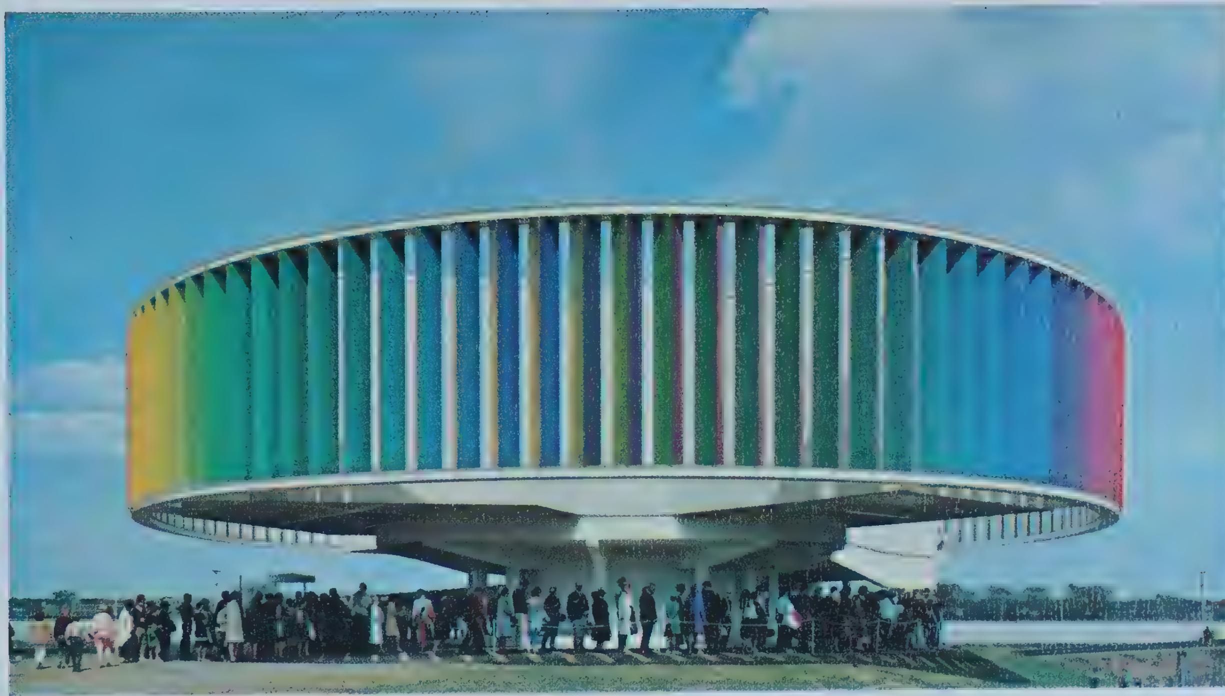
Projects undertaken during the year included a film extrusion plant to produce packaging film from polyvinyl chloride at Ste. Thérèse, Quebec, an oxychlorination unit to increase the capacity of the vinyl chloride monomer facilities at Varennes, Quebec, and an expansion of the vinyl acetate plant at Shawinigan, Quebec. Completion of a 500-million-pound-per-year ethylene plant at Varennes, Quebec, is scheduled late in 1968.

Petrochemical sales, excluding sulphur, by B-A and Shawinigan totalled 356 million pounds, compared with 370 million pounds in 1966.

Western Tire and Auto Supply Limited

New levels in sales of merchandise and petroleum products were achieved by Western Tire and Auto Supply Limited in 1967.

Six franchise dealer stores and two large auto centres were opened during the year. The auto centres, at Port Viau and Chomedey in the Montreal area, include gasoline and servicing facilities, a retail store and a drive-through car wash. Two other auto centres were opened during the year—one in London, Ontario, in conjunction with a shopping plaza, and a smaller location in Granby, Quebec.



Top left: Tank cars are loaded with product at the Varennes, Quebec, plant of Shawinigan Chemicals. Top: Co-sponsored by Shawinigan and other Canadian chemical companies, Kaleidescope drew 1½ million visitors during Expo'67. Bottom: Expanded ethylene facilities at Shawinigan's Varennes plant will be completed in 1968. Left: New headquarters and warehouse of Western Tire and Auto Supply Limited are located at Lachine, Quebec.

The British American Oil Company

Consolidated

December 31, 1967 (with

ASSETS

Current:	1967	1966
Cash	$ 18,187,000	$ 14,510,000
Short term investments, at cost (approximates market value)	48,479,000	69,716,000
Accounts receivable	119,786,000	119,695,000
Inventories (note 2)—		
Crude oil, products and merchandise	99,818,000	89,417,000
Materials and supplies	7,063,000	6,699,000
Prepaid expenses	5,466,000	5,346,000
Total current assets	298,799,000	305,383,000
Investments, long term receivables and other assets:		
Investments in associated and other companies at cost (note 3)	10,900,000	11,456,000
Deposits, long term receivables and other assets	23,308,000	19,129,000
Claim for refund of U.S. taxes paid (note 6(c))	13,128,000	—
Deferred charges	4,994,000	2,000,000
	52,330,000	32,585,000
Properties, plants and equipment (note 4)	496,652,000	469,600,000
Excess of cost of investments in subsidiaries over values assigned to their tangible assets, less amortization	17,546,000	18,011,000
	$865,327,000	$825,579,000

See accompanying notes

nited and subsidiary companies

alance Sheet

mparative figures for 1966)

LIABILITIES

Current:	1967	1966
Amounts payable to affiliated companies for crude oil and other purchases	$ 11,564,000	$ 3,185,000
Other accounts payable and accrued charges	64,740,000	60,326,000
Income and other taxes payable (note 6)	42,142,000	36,090,000
Current portion of long term debt	2,597,000	1,410,000
Dividends payable	6,025,000	6,003,000
Total current liabilities	127,068,000	107,014,000
Long term debt (note 7)	69,197,000	70,877,000
Minority interest in subsidiaries (notes 1(b) and 8(b))	22,232,000	23,159,000
Total liabilities	218,497,000	201,050,000
SHAREHOLDERS' EQUITY		
Capital stock (note 8)	252,356,000	250,004,000
Retained earnings	394,474,000	374,525,000
Total shareholders' equity	646,830,000	624,529,000
	$865,327,000	$825,579,000

On behalf of the Board:

C. Hay, Director.

Beverley Matthews, Director.

financial statements.

The British American Oil Company Limited and subsidiary companies

Statements of Consolidated Earnings

for the year ended December 31, 1967 (with comparative figures for 1966)

EARNINGS

Revenue:	1967	1966
Gross sales and other operating revenues	$718,739,000	$679,710,000
Less gasoline and fuel taxes	121,900,000	115,934,000
Net sales and other operating revenues	596,839,000	563,776,000
Investment and sundry income	12,259,000	10,815,000
	609,098,000	574,591,000
Deductions:		
Purchased crude oil, products and merchandise	271,189,000	248,417,000
Operating, selling and administrative expenses	187,237,000	180,401,000
Taxes on income (note 6)	25,974,000	19,029,000
Other taxes	35,989,000	33,153,000
Depreciation, depletion and amortization (note 5)	41,005,000	44,505,000
Interest and amortization of discount and redemption premium on long term debt	3,681,000	3,929,000
Other interest expense	68,000	1,354,000
Income (loss) applicable to minority interests in subsidiaries	(80,000)	1,294,000
	565,063,000	532,082,000
Earnings for the year	$ 44,035,000	$ 42,509,000
Per share of common stock outstanding at end of each year	$ 2.01	$ 1.95

RETAINED EARNINGS

	1967	1966
Balance beginning of the year	$374,525,000	$298,176,000
Gain on disposal of investment in The British-American Oil Producing Company	—	57,306,000
Earnings for the year	44,035,000	42,509,000
	418,560,000	397,991,000
Deduct dividends on common shares	24,086,000	23,466,000
Balance end of the year	$394,474,000	$374,525,000

See accompanying notes to financial statements.

The British American Oil Company Limited and subsidiary companies

Statement of Consolidated Source and Use of Funds

for the year ended December 31, 1967 (with comparative figures for 1966)

	1967	1966
Source of Funds:		
Earnings for the year	$ 44,035,000	$ 42,509,000
Add depreciation, depletion and amortization	41,005,000	44,505,000
Funds from operations	85,040,000	87,014,000
Net book value of fixed asset disposals	5,320,000	3,131,000
Issue of shares for cash	1,409,000	6,000
Other—net	(438,000)	397,000
	91,331,000	90,548,000
Funds provided by sale of investment in U.S. subsidiary	—	115,699,000
Total	91,331,000	206,247,000
Use of Funds:		
Additions to properties, plants and equipment	72,404,000	68,082,000
Increase in investments and long term receivables	6,671,000	5,007,000
Reduction in long term debt	1,680,000	7,155,000
Reduction in minority interest holdings of preferred shares of subsidiaries	—	5,351,000
Payment of U.S. taxes (note 6(c))	13,128,000	—
Dividends on common shares	24,086,000	23,466,000
Total	117,969,000	109,061,000
Increase (decrease) in working capital	(26,638,000)	97,186,000
Working capital, beginning of year	198,369,000	101,183,000
Working capital, end of year	$171,731,000	$198,369,000

See accompanying notes to financial statements.

The British American Oil Company Limited and subsidiary companies

Notes to Consolidated Financial Statements

December 31, 1967

1. Subsidiary companies

(a) The accounts of all subsidiary companies have been included in the consolidation.

(b) Subject to approval of its shareholders, Royalite Oil Company, Limited, in which the Company holds a 97.6 per cent interest, will be amalgamated with a wholly-owned non-operating subsidiary of the Company effective early in 1968. Under the terms of the proposed amalgamation, the shareholders of Royalite, other than the Company, will receive in exchange for their common shares, redeemable preferred shares in the amalgamated company having an aggregate par value of $1,849,000, or $1,042,000 in excess of the value at which their minority interest in Royalite is reflected in the accompanying balance sheet. If the proposed amalgamation is completed, this excess amount will be written off to retained earnings under the pooling of interest accounting treatment applied to the Company's acquisition of Royalite. It is intended that the preferred shares to be issued will be redeemed some time prior to the end of 1968 and, in this event, the amalgamated company will become a wholly-owned subsidiary of the Company.

2. Inventories

Inventories of crude oil, products and merchandise are valued generally at the lower of cost applied on a "first-in, first-out" basis and market value determined on the basis of replacement cost or net realizable value. Materials and supplies are valued at cost or lower, depending on the condition of the items.

3. Investments in associated and other companies

	At Cost	
	1967	**1966**
With quoted market value 1967: $60,481,000; 1966: $49,899,000	$ 6,762,000	$ 6,825,000
Without quoted market value	4,138,000	4,631,000
	$10,900,000	$11,456,000

The market values shown are based on closing market prices at the end of each year. Because of the number of shares involved, the amounts that would be realized if certain of the securities were to be sold might be less than their closing market prices.

4. Properties, plants and equipment

	Gross investment at cost	Accumulated depreciation, depletion and amortization	Net investment **1967**	Net investment **1966**
Production	$355,604,000	*$152,167,000	$203,437,000	$197,505,000
Transportation	21,345,000	10,731,000	10,614,000	7,940,000
Refining and petrochemicals	328,829,000	191,616,000	137,213,000	131,974,000
Marketing	222,733,000	86,954,000	135,779,000	122,984,000
Other	15,589,000	5,980,000	9,609,000	9,197,000
	$944,100,000	$447,448,000	$496,652,000	$469,600,000

**Includes accumulated depletion of $26,919,000 with respect to the acquisition costs of productive properties.*

5. Depreciation, depletion and amortization

Depreciation, depletion and amortization in the statement of consolidated earnings consists of:

	1967	**1966**
Depreciation of plants and equipment	$32,387,000	$32,079,000
Depletion of acquisition costs of productive properties	1,460,000	2,013,000
Amortization of non-producing properties, drilling costs and other intangible assets	7,158,000	10,413,000
	$41,005,000	$44,505,000

Policies governing depreciation, depletion and amortization are as follows:

(*a*) *Exploration and development costs—*

The companies follow the practice of charging to expense, as incurred, the cost of all dry holes and all exploration expenditures except the initial acquisition cost of oil and gas properties. These latter costs together with the costs of successful wells are capitalized and charged against earnings on a unit-of-production or other amortization basis.

(*b*) *Investment in plants and equipment—*

Charges are made against earnings for depreciation of investment in plants and equipment based on engineering reviews of the remaining service lives of the assets using either the straight-line or the unit-of-production method, whichever is appropriate.

6. Income taxes

(a) In arriving at reported earnings, income taxes have been computed on the basis of (i) claiming exploration and development expenditures to the extent that they are allowable deductions for tax purposes, in the year in which they are incurred, regardless of the treatment followed in the accounts, and (ii) claiming maximum capital cost allowances each year (excluding certain short term accelerated allowances) rather than depreciation charged in the accounts. These claims for exploration and development expenditures and for capital cost allowances have exceeded the amounts charged in the accounts, resulting in a reduction in income taxes of $1,200,000 in 1967 and $2,200,000 in 1966 and approximately $74,500,000 to date. Of this latter amount, approximately $41,400,000 relates to capital cost allowance claims in excess of recorded depreciation and the balance to exploration and development expenditures and other items claimed for tax purposes in advance of their being written off in the accounts.

(b) Certain accelerated capital cost allowances and other deductions of a short term nature claimed in filing annual income tax returns have resulted in further tax reductions aggregating approximately $13,200,000 to December 31, 1967. Because of their short term nature, however, these reductions have not been reflected in reported earnings but are included in the balance of income taxes payable at that date.

(c) The United States income tax authorities are contending that certain interest-bearing loans made in prior years to the Company by its former U.S. producing subsidiary (sold in July, 1966) were, in fact, dividends on which tax should have been withheld at source and they have issued an assessment on this basis. The Company believes that the assessment is erroneous but, on the advice of counsel as to the best procedure to follow, the tax together with interest and penalties assessed, aggregating $13,128,000 has been paid and suit has been filed for refund of the payment. The outcome of this matter cannot be determined at this time and accordingly the amount of this payment has been deferred in the accompanying balance sheet.

7. Long term debt	Maturity	Amount
The British American Oil Company Limited—		
3½% debentures, 1954 issue (sinking fund)	1974	$ 9,900,000
5⅛% debentures, Series A (sinking fund)	1977	14,800,000
5¾% debentures, Series B (sinking fund)	1982	8,600,000
5¼% debentures, Series C (sinking fund) (U.S. $17,391,000)	1982	18,800,000
Royalite Oil Company, Limited—		
4¾% and 5% debentures (sinking fund)	1972-1975	13,000,000
Shawinigan Chemicals Limited—		
4¾% sinking fund debentures	1971	2,700,000
Superior Propane Limited—		
4% to 6¾% debentures (sinking fund)	1975-1980	2,094,000
Other long term obligations of subsidiary companies	varying dates	1,900,000
		71,794,000
Less instalments due within one year included in current liabilities		2,597,000
		$69,197,000

Approximate instalments of long term debt due in each of the five years subsequent to December 31, 1967 are as follows:

1968—$2,597,000; 1969—$4,165,000; 1970—$6,909,000; 1971—$7,715,000; 1972—$5,662,000.

8. Capital stock

Common shares without nominal or par value:

Authorized—34,000,000 shares
Issued —21,923,875 shares

(*a*) *Anglo-Canadian share exchange offer—*

In 1967 the Company issued a further 31,443 shares of its capital stock under the share exchange offer of December 15, 1966, to acquire the minority shareholdings of Anglo-Canadian Oils Limited (a consolidated subsidiary) on the basis of three of the Company's shares for each Anglo-Canadian common share. These shares have been assigned an aggregate consideration of $943,000, their approximate market value at December 15, 1966.

(*b*) *Acquisition of balance of Shawinigan Chemicals Limited and all the outstanding stock of Perkins Glue Company of Canada, Limited—*

On the basis of negotiations entered into in October, 1967 and subject to obtaining a satisfactory ruling from the United States income tax authorities, the Company has agreed to acquire under a share exchange with Gulf Oil Corporation the one-third share interest in Shawinigan Chemicals Limited and all the outstanding common stock of Perkins Glue Company of Canada, Limited now held by Gulf. Under this agreement, 644,485 of the Company's shares will be issued for an aggregate consideration of $23,245,000. Following completion of this transaction early in 1968, Shawinigan Chemicals Limited and Perkins Glue Company of Canada, Limited will become wholly-owned subsidiaries of the Company.

(*c*) *Stock option plan—*

The Company's Incentive Stock Option Plan provides for the granting of options to full-time officers and other employees to purchase common shares of the Company at the market price on the day on which the options are granted. Under the plan, options become exercisable after one year's continuous employment immediately following the date the options are granted and are for a period of ten years. During 1967 options on 43,600 shares were exercised for a cash consideration of $1,409,000, options on 22,900 shares expired and options on 43,000 shares were granted. Details of common shares under option at December 31, 1967, were as follows:

Year option granted	Normal expiry date	Option price per share	Number of shares
1958	January 8, 1968	$36 3/16	12,200
1959	January 20, 1969	42 9/16	31,600
1960	January 4, 1970	33 13/16	32,700
1961	February 22, 1971	33 15/16	24,200
1962	September 20, 1972	29 13/16	17,050
1965	April 22, 1975	34 5/8	10,000
1966	February 2, 1976	30 1/16	9,000
1967	October 4, 1977	37 3/8	43,000
			179,750

Shares under option at December 31, 1967 included 76,750 shares under option to officers of the Company.

9. Pension plans

The companies have funded pension plans covering substantially all of their employees. The contributions by employees together with those made by the companies are deposited with insurance companies and/or trustees according to the terms of the plans. Pensions at retirement are related to remuneration and years of service. The amounts charged to income (including amounts paid to government pension plans) were $4,048,000 in 1967 and $3,397,000 in 1966, which amounts included amortization of prior service costs.

The unfunded prior service pension costs at December 31, 1967 were $4,527,000 and these will be funded in varying amounts over the next ten years. All vested benefits are fully funded.

10. Commitments and contingent liabilities

The Company is continuing discussions with the governments of Canada and the Province of Nova Scotia with regard to the construction of a 60,000 barrel-per-day refinery on its property at Point Tupper, Nova Scotia. The capital cost of the refinery and related facilities is estimated at $50,000,000. The Company's refinery facilities at Port Moody, British Columbia, are to be expanded at an estimated cost of $10,000,000.

The Company's subsidiary, Shawinigan Chemicals Limited, is committed to estimated expenditures of $21,000,000 for completion of its ethylene plant at Varennes, Quebec.

The companies have other commitments in the ordinary course of business for the acquisition or construction of fixed assets and for the purchase of materials, supplies, investments and services which are not significant in relation to their net assets.

The companies in the normal course of business have entered into lease, charter hire, throughput agreements and other similar commitments. Long term leases for real property and charters for tankers have approximate rentals payable in 1968 of $12,300,000 (inclusive of property taxes). Rental income from properties sub-leased to others is estimated at $4,606,000 for 1968.

Under certain of these long term leases, the Company has the option to purchase the leased assets and is obligated to make advances from time to time which will be applied against the purchase price if the option is exercised. It is estimated that such advances will aggregate approximately $24,096,000 over the terms of the lease agreements (which expire at various dates to 1982). Advances to December 31, 1967, have amounted to $4,306,000 and during the next five years will aggregate approximately $4,300,000 of which $830,000 will be payable in 1968.

The companies are contingently liable for guarantees of obligations of pipe line companies and of mortgages payable by owners of service stations and others, aggregating $20,257,000. Also under long term agreements with certain other pipe line companies, the Company has agreed in conjunction with other users to ship sufficient crude oil to generate the revenue required to meet the obligations of these companies, and in the event there is any deficiency the Company may be required to purchase subordinated securities in an amount sufficient to make up its share of the deficiency. The Management of the Company is of the opinion no losses of any consequence will arise from these guarantees and long term agreements.

11. Directors' remuneration

The aggregate of remuneration paid to the officers who are also directors of the Company and fees paid to its other directors totalled $293,000 in 1967.

Clarkson, Gordon & Co.
Chartered Accountants
15 Wellington Street West, Toronto 1, Canada

Auditors' Report

To the Shareholders of
The British American Oil Company Limited:

We have examined the consolidated balance sheet of The British American Oil Company Limited and subsidiary companies as at December 31, 1967 and the statements of consolidated earnings and consolidated source and use of funds for the year ended on that date. Our examination was made in accordance with generally accepted auditing standards and accordingly included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, subject to the final determination of the claim for refund of U.S. taxes referred to in note 6(c), these financial statements present fairly the financial position of The British American Oil Company Limited and subsidiary companies as at December 31, 1967 and the results of their operations and source and use of funds for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson, Gordon & Co.
Chartered Accountants

Toronto, Canada, February 9, 1968.

Five year summary of operations

	1967	1966	1965	1964	1963
Net natural gas produced and sold					
(millions of cubic feet)					
Canada	103,322	98,456	98,671	92,911	90,360
Per day	283	270	270	254	248
U.S.—to July 27, 1966	—	22,509	28,759	26,564	23,750
Per day	—	94	79	72	65
Net crude and natural gas liquids produced					
(thousands of barrels)					
Canada	27,042	24,648	23,400	22,524	20,625
Per day	74	68	64	61	57
U.S.—to July 27, 1966	—	4,546	8,396	8,687	9,305
Per day	—	22	23	24	25
Crude oil processed by B-A and for B-A's account					
(thousands of barrels)					
Total	69,850	66,530	57,145	55,899	54,688
Per day	191	182	157	153	150
Refined products sold					
(thousands of barrels)					
Total	76,193	67,940	62,252	59,245	54,568
Per day	209	186	171	162	150
Petrochemical sales					
(thousands of pounds)					
Total	355,667	370,413	352,663	310,080	212,937
Per day	974	1,015	966	847	583
Sulphur sales					
(long tons)					
Total	173,360	221,315	258,628	313,468	186,321
Per day	475	606	709	856	510
Net wells capable of producing at year-end					
Canada	1,546	1,550	1,529	1,557	1,490
U.S.	—	—	687	715	746
Total	1,546	1,550	2,216	2,272	2,236
Net wells drilled					
Canada	51	78	130	142	142
U.S.	—	11	40	38	53
Total	51	89	170	180	195
Net acreage under lease, reservation and option					
(thousands of acres)					
Canada	23,774	18,745	15,967	13,151	11,493
U.S.	—	—	786	1,041	1,346
Total	23,774	18,745	16,753	14,192	12,839

Ten Year Financial Summary

Totals, except for unit statistics, expressed in millions of dollars

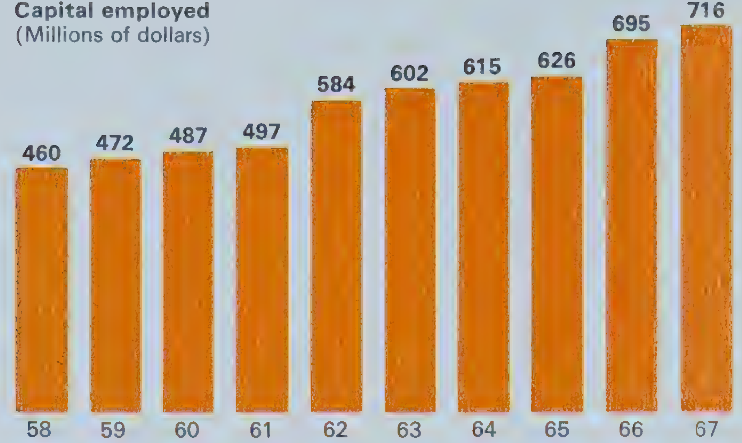
	1967	1966	1965	1964	1963	1962
Balance Sheet						
Current assets	$298.8	$305.4	$246.2	$216.3	$207.0	$182.3
Deduct: Current liabilities	127.1	107.0	145.0	118.1	112.7	83.2
Working capital	171.7	198.4	101.2	98.2	94.3	99.1
Properties, plants and equipment—net	496.7	469.6	504.2	497.4	491.1	437.1
Investments, long term receivables and other assets	69.8	50.6	48.1	44.1	42.4	56.2
	738.2	718.6	653.5	639.7	627.8	592.4
Deduct: Minority interests in subsidiaries	22.2	23.2	27.9	25.1	25.8	8.2
Capital employed	716.0	695.4	625.6	614.6	602.0	584.2
Deduct: Long term debt	69.2	70.9	78.0	83.7	89.7	91.1
Shareholders' equity	$646.8	$624.5	$547.6	$530.9	$512.3	$493.1
Per common share	*$29.50*	*$28.58*	*$25.09*	*$24.33*	*$23.48*	*$22.60*
Capital Expenditures						
New properties, plants and equipment	$ 70.8	$ 66.2	$ 52.1	$ 51.4	$ 60.7	$ 55.5
Assets of acquired subsidiaries	1.6	1.9	1.3	4.1	37.7	42.9
	$ 72.4	$ 68.1	$ 53.4	$ 55.5	$ 98.4	$ 98.4
Earnings						
Gross sales and other operating revenues	$718.7	$679.7	$623.6	$588.3	$541.7	$474.1
Less gasoline and fuel taxes	121.9	115.9	103.8	95.7	88.3	81.7
Net sales and other operating revenues	596.8	563.8	519.8	492.6	453.4	392.4
Dividends and interest income	12.3	10.8	7.0	6.2	5.9	4.4
	609.1	574.6	526.8	498.8	459.3	396.8
Deduct:						
Exploration and dry hole costs	12.3	17.1	22.0	20.2	20.5	21.4
Depreciation, depletion and amortization	41.0	44.5	44.9	46.5	41.9	38.7
Other expenses	449.9	417.0	376.8	354.2	327.2	273.1
Income and other taxes	62.0	52.2	44.5	40.1	35.2	28.4
Minority share of earnings	(.1)	1.3	1.4	1.1	.3	.6
	565.1	532.1	489.6	462.1	425.1	362.2
Earnings before extraordinary items	44.0	42.5	37.2	36.7	34.2	34.6
Extraordinary items	—	—	1.1	4.1	—	—
Net Earnings	$ 44.0	$ 42.5	$ 38.3	$ 40.8	$ 34.2	$ 34.6
Funds from operations	$ 85.0	$ 87.0	$ 83.2	$ 87.3	$ 76.1	$ 73.3
Dividends paid	$ 24.1	$ 23.5	$ 21.8	$ 21.8	$ 13.5	$ 12.5
Per common share						
Earnings before extraordinary items	*$ 2.01*	*$ 1.95*	*$ 1.71*	*$ 1.68*	*$ 1.57*	*$ 1.59*
Earnings for the year	*$ 2.01*	*$ 1.95*	*$ 1.76*	*$ 1.87*	*$ 1.57*	*$ 1.59*
Funds from operations	*$ 3.88*	*$ 3.98*	*$ 3.81*	*$ 4.00*	*$ 3.49*	*$ 3.36*
Dividend rate at year-end	*$ 1.10*	*$ 1.10*	*$ 1.00*	*$ 1.00*	*$ 1.00*	*$ 1.00*

The above summary includes the operating results and capital expenditures of the Company's former U.S. subsidiary, The British-American Oil Producing Company, to date of sale on July 27, 1966, as follows:

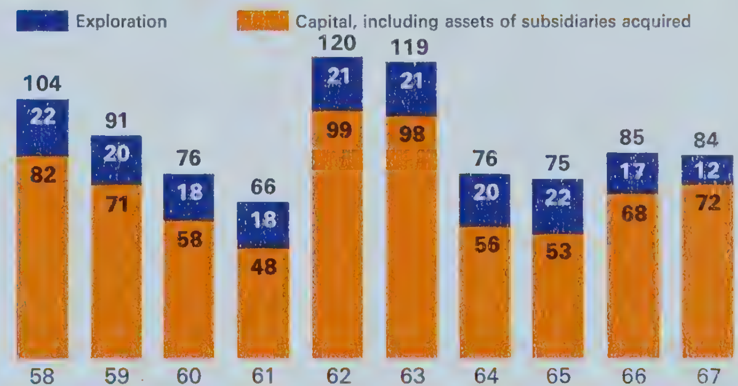
	1967	1966	1965	1964	1963	1962
Earnings						
Gross operating revenue		$ 18.7	$ 33.2	$ 34.9	$ 36.3	$ 37.4
Deduct:						
Exploration and dry hole costs		2.0	6.1	6.2	6.9	7.5
Depreciation, depletion and amortization		5.7	9.3	10.6	8.9	10.7
Other operating expenses, including taxes		6.7	12.2	12.6	12.4	12.1
Operating profit		4.3	5.6	5.5	8.1	7.1
Dividends and other income		.4	.7	.7	.7	.6
Extraordinary items		—	—	1.8	—	—
Net profit before inter-company interest and withholding tax		$ 4.7	$ 6.3	$ 8.0	$ 8.8	$ 7.7
Capital expenditures		$ 2.3	$ 7.1	$ 7.7	$ 7.4	$ 15.0

1961	1960	1959	1958
$143.1	$144.7	$144.2	$170.2
65.3	51.8	50.1	50.6
77.8	92.9	94.1	119.6
379.0	371.1	353.5	319.8
40.9	24.1	25.2	21.7
497.7	488.1	472.8	461.1
1.0	1.0	.9	.8
496.7	487.1	471.9	460.3
40.0	51.3	54.7	56.8
$456.7	$435.8	$417.2	$403.5
$22.31	*$21.30*	*$20.39*	*$19.73*
$ 46.5	$ 57.5	$ 69.8	$ 81.1
1.4	.3	1.2	.4
$ 47.9	$ 57.8	$ 71.0	$ 81.5
$398.6	$387.4	$381.2	$374.4
69.8	64.3	60.9	59.5
328.8	323.1	320.3	314.9
5.1	5.0	4.6	2.2
333.9	328.1	324.9	317.1
17.7	18.4	20.1	22.4
37.5	35.7	34.4	31.8
223.9	223.7	223.6	223.1
22.5	21.4	21.1	19.2
.1	.1	.1	.1
301.7	299.3	299.3	296.6
32.2	28.8	25.6	20.5
.4	2.0	—	—
$ 32.6	$ 30.8	$ 25.6	$ 20.5
$ 70.1	$ 66.5	$ 60.0	$ 52.3
$ 12.1	$ 12.1	$ 12.1	$ 10.6
$ 1.57	*$ 1.41*	*$ 1.25*	*$ 1.00*
$ 1.59	*$ 1.51*	*$ 1.25*	*$ 1.00*
$ 3.42	*$ 3.25*	*$ 2.93*	*$ 2.56*
$ 1.00	*$ 1.00*	*$ 1.00*	*$ 1.00*
$ 33.7	$ 33.5	$ 35.0	$ 36.2
7.2	7.7	8.6	9.6
10.5	10.3	10.5	10.9
9.1	9.7	11.2	10.0
6.9	5.8	4.7	5.7
1.3	.8	.8	.4
.4	.1	—	—
$ 8.6	$ 6.7	$ 5.5	$ 6.1
$ 11.3	$ 11.9	$ 12.2	$ 12.0

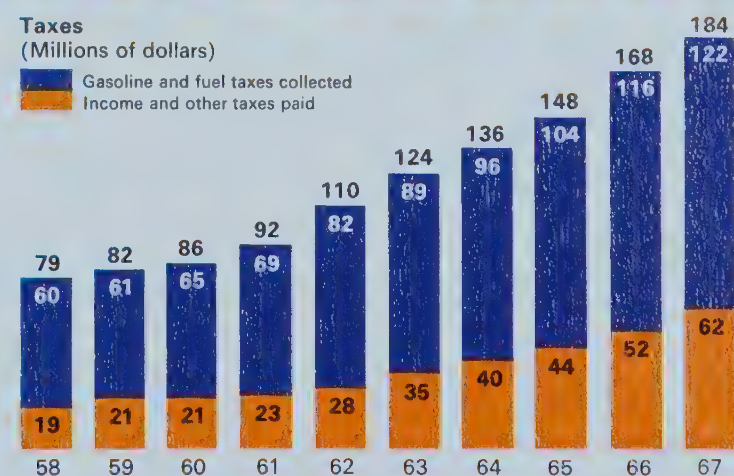
Capital employed
(Millions of dollars)



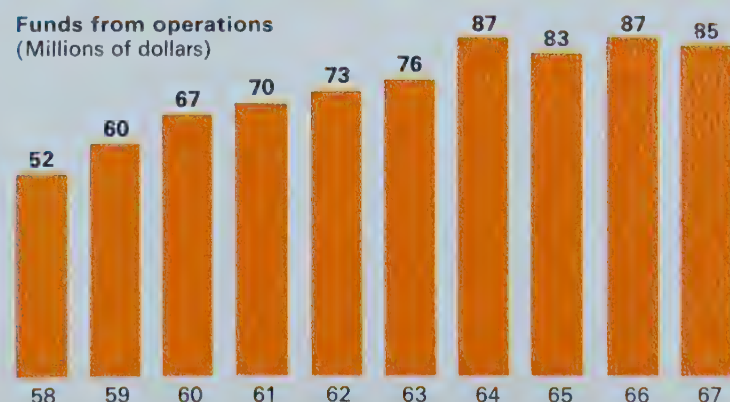
Capital and exploration expenditures
(Millions of dollars)



Taxes
(Millions of dollars)



Funds from operations
(Millions of dollars)



The British American Oil Company Limited

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Head Office
British American Oil Building
800 Bay Street, Toronto, Ontario

Marketing Division Offices
Halifax, Nova Scotia; Montreal, Quebec; Toronto, Ontario; Calgary, Alberta; Vancouver, British Columbia

Data Centres
Montreal, Quebec; Toronto, Ontario; Calgary, Alberta

Research and Development Centre
Sheridan Park, Ontario

Exploration and Production
Department headquartered in Calgary, Alberta
Divisional Exploration Office—
Calgary, Alberta
Gas plants—Pincher Creek, Nevis, Gilby, Rimbey, Turner Valley and Morrin-Ghost Pine, Alberta

Pipe Lines
Department headquartered in Toronto, Ontario
Operated pipe lines—
Britamoil pipe line
B-A Saskatchewan pipe line
Mid-Saskatchewan pipe line
Rimbey pipe line
Saskatoon pipe line
Valley pipe line

Refineries
Montreal East, Quebec; Clarkson, Ontario; Brandon, Manitoba; Moose Jaw and Saskatoon, Saskatchewan; Calgary and Edmonton, Alberta; Kamloops and Port Moody, British Columbia

Principal Affiliates
ROYALITE OIL COMPANY, LIMITED
(97.6 per cent interest)
An integrated oil company operating in Western Canada.
Head Office: Calgary, Alberta
President: J. L. Valens

SHAWINIGAN CHEMICALS LIMITED
(66⅔ per cent interest)
An industrial chemical organization with plants at Shawinigan, St. Maurice, Ste. Thérèse, Montreal East and Varennes, Quebec. Products are marketed on a world-wide basis.
Head Office: Montreal, Quebec
Chairman: H. S. Sutherland
President: V. N. Hurd

SUPERIOR PROPANE LIMITED
(100 per cent interest)
A propane distributor.
Head Office: Toronto, Ontario
President: R. G. Samworth

WESTERN TIRE AND AUTO SUPPLY LIMITED
(100 per cent interest)
A retailer of automotive, petroleum and other products in Eastern Canada.
Head Office: Montreal, Quebec
President: S. J. Sinclair

Registrar
Canada Permanent Trust Company, Toronto

Transfer Agents
Canada Permanent Trust Company—
Montreal, Toronto
National Trust Company Limited—Winnipeg, Edmonton, Vancouver and by its agent
Canadian Imperial Bank of Commerce—
Halifax, Saint John, N.B., Regina
Registrar and Transfer Company—New York

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THE BRITISH AMERICAN OIL COMPANY LIMITED

600 BAY STREET, TORONTO 5, ONTARIO • TELEPHONE 924-4141
TRANSPORTATION DEPARTMENT

HARRY HENSON
MANAGER

March 29th, 1968

Mr. J. H. Darling
Chairman, Water Transport Committee
Canadian Transport Commission
124 O'Connor Street
OTTAWA, Canada

Dear Mr. Darling: re: Inquiry into the Ownership and Registration of Ships in Canada

The British American Oil Company Limited (B A) has been carrying on business in Canada since 1906. At present 68% of its capital stock is owned by the Gulf Oil Corporation a Pennsylvania Corporation with its Head Office in Pittsburgh. The Company had 26,018 Canadian shareholders at the end of 1967.

B A is a fully integrated oil company engaged in the exploration and production of crude oil, natural gas, sulphur and other minerals and the manufacture, transport and sale of refined petroleum products and petrochemicals.

Since 1931, B A has been active in transporting crude oil and refined petroleum products in tankers and barges.

At the present time, B A exclusively operates two tankers. The B A Peerless, 15,425 dead weight tons, and the B A Canada, 20,949 dead weight tons.

The B A Peerless was built and registered in Canada and was originally used to transport Canadian crude oil from Superior, Wisconsin, to B A's Clarkson, Ontario, Refinery. It is currently used in transporting refined products between points in Canada on the Great Lakes, along the St. Lawrence River, and the Atlantic East Coast. The B A Canada is a foreign flag ship operating from foreign ports to Canada.

To supplement the operation of the B A Peerless between points in Canada, B A charters additional tankers mainly from both Hall Corporation and Branch Lines.

Additional foreign flag tankers are employed primarily to transport crude oil from the Middle East for B A's Refinery at Montreal, Quebec.

Your Commission has been directed "to inquire into and report to the Minister of Transport upon the operation of the provisions of the Canada Shipping Act governing the ownership and registration of ships in Canada and other related matters ....".

B A although a member of the Dominion Marine Association (DMA) opposes that part of the recommendation of the DMA that the Canada Shipping Act be amended to provide Canadian registry will only be granted to a corporation 75% of whose shares are owned by

Canadian citizens. This is similar to the "Jones law" of the United States which has resulted in its having one of the highest cost merchant fleets in the world.

While the DMA also recommends that "grandfather rights" be granted to corporations now in the trade, B A cannot agree that this is adequate since such a provision could prevent BA building additional ships for its own use in Canadian trade. On a broader application such a provision would prevent any new corporation not 75% owned by Canadian citizens from providing its own water transportation for its raw materials or products even when such transportation would be in the normal course of its business.

Canada's National Transportation Policy states in part "that an economic, efficient and adequate transportation system making the best use of all available modes of transportation at the lowest total cost is essential to protect the interests of the users of transportation and to maintain the economic well-being and growth of Canada." We suggest it is fundamental in our free enterprise economy that a corporation should have the right to provide its own transportation facilities subject, of course, to safety and national interest.

It is submitted that adequate provision for the protection of the Canadian shipping industry against unfair competition can be effectively provided by the normal business laws of Canada. Legitimate

competition by a Canadian corporation should not be restricted beyond the present requirements covering domestic trade. The fact that Canadian owned shipping cannot trade in United States coastal waters, rather than causing retaliation by Canada in its shipping laws should encourage Canada to consider negotiating reciprocal arrangements of benefit to both countries.

B A therefore recommends that provision under the Canada Shipping Act for Canadian registry be restricted to only:

(a) a Canadian citizen; or

(b) a resident British subject; or

(c) a company incorporated in Canada and having its principal place of business in Canada.

As previously stated, B A does not feel the proposed 75% Canadian ownership provision is warranted when such ownership and operation is related to its primary business endeavour. However, if it is found necessary to give some protection to certain elements of the shipping industry, B A alternatively recommends that exemption from such restrictions be given to a company incorporated in Canada and having its principal place of business in Canada, operating its own ships for the transportation of materials and/or products directly related to its primary business endeavour.

Sincerely,

H Henson

H. Henson

HH:ab